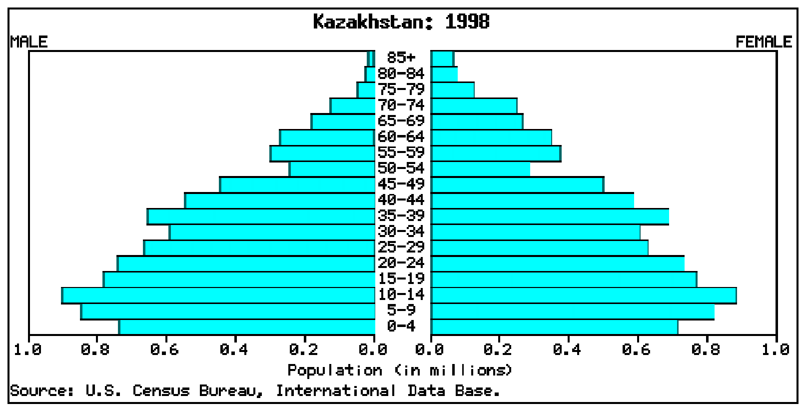
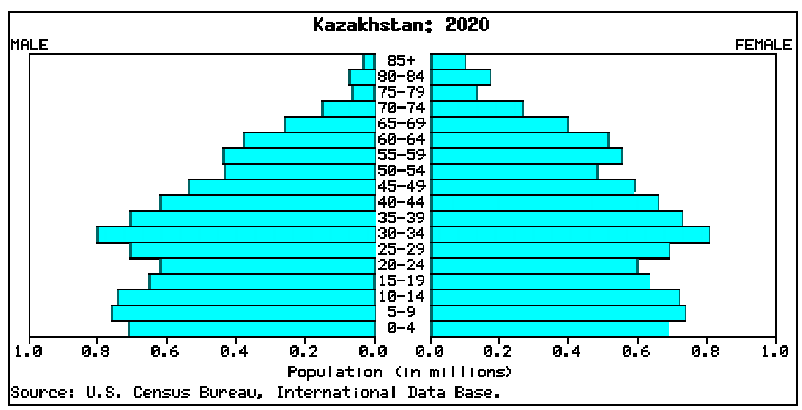
Kazakhstan

Summary of Current System			
	Pillar 1	**Pillar 2**	**Pillar 3**
Type:	♦ Defined-contribution	♦ Defined-contribution	♦ Defined-contribution
Participation:	♦ Mandatory	♦ Mandatory	♦ Voluntary
Management:	♦ Publicly-managed	♦ Privately-managed	♦ Privately-managed
Financing:	♦ PAYGO	♦ Fully-funded	♦ Fully-funded
Coverage:	♦ All workers	♦ All workers	♦ All workers
Eligibility:	♦ Gradual increase from age 61 to 63 for men and from age 56 to 58 for women by 2002	♦ Gradual increase from age 61 to 63 for men and from age 56 to 58 for women by 2002	♦ Gradual increase from age 61 to 63 for men and from age 56 to 58 for women by 2002

Challenges Facing Pension System

- Low compliance levels
- Generous benefits
- Demographic shifts





Summary of Current System

The Government of Kazakhstan implemented a multi-pillar pension system in January 1998. The new system includes a mandatory, private savings (Pillar II) supplemented by a voluntary, private savings (Pillar III), along with a minimized pay-as-you-go, or PAYGO system (Pillar I). Pillar I, also known as the "solidarity plan", will only pay benefits to those individuals who had retired prior to the new system taking effect. There will be no benefits paid from the solidarity plan after January 1998. The new system consists of both a defined-contribution fund run by a government agency, known as the State Accumulation Fund, and non-state, privately-managed accumulation funds. All individuals will be obliged to choose an accumulative pension fund.

Individual accounts are funded by contributions and investment earnings. Employee contribution rates are 10 percent, which is paid into the accumulation fund of choice. Employer contribution rates are 15 percent, which is paid into Pillar I. In addition to the mandatory contributions, individuals may make voluntary contributions into voluntary pension savings funds (Pillar III).

Upon retirement, accumulated contributions along with the investment returns will be converted into a pension and disbursed as an annuity. The eligible retirement age will increase by six months each year until it reaches 63 years for men and 58 years for women by 2002.

Employees receive pension benefits from both the State Center for Pension Payments, for services covered under the previous pension scheme, and from the funds in their individual accounts. Pensions will be paid after a minimum length of service of 25 years for men and 20 years for women. A minimum level of pension will be established. In those cases where pension benefits are lower than the minimum, a state-provided social allowance will be paid to bring the pension up to the minimum level. Disability pensions, survivor pensions, and old-age social pensions are now social assistance allowances financed by the State budget.

Kazakhstan

SELECTED INDICATORS		
	Year	
Demographic	*1998*	*2020*
Total Population (in thousands)	16,847	18,127
Life Expectancy at Birth (Years)	63.6	69.5
Total Fertility Rate (Child Born per Woman)	2.1	2.1
Age Dependency Ratio (percent)	17.8	22.5
	1980-2000	*2000-2020*
Average Annual Rate of Population Growth (percent)	0.6	0.4

Source: U.S. Bureau of the Census. International Data Base.

Economic	*1996*
GNP (PPP in billions)[1]	53.2
GNP Average Annual Growth Rate, 1995-1996 (percent)[1]	0.9
GNP Per Capita (in PPP)[1]	1,970
Inflation Rate (percent)[2]	39.1
Labor Force Participation Rate (percent)[3]	48.0
Unemployment Rate (percent)[3]	4.1

Source: [1]World Bank; [2]IMF; [3]International Labour Office.

Pension	*1997*
System Dependency Ratio, 1996 (percent)[1]	57.1
Employee Contribution for Pensions (percent of earnings)[2]	10.0
Employer Contribution for Pensions (percent of payroll)[2]	15.0
Public Pension Spending as % of Government Spending	n/a
Public Pension Spending as % of GDP, 1996 [1]	5.3

Source: [1]IMF; [2]U.S. Social Security Administration.

Privileged pensions, or early retirement benefits, have almost been entirely eliminated. Only those individuals who have lived in high areas of radiation, mothers with many children living in rural areas, military men, and employees of the Ministry of Internal Affairs and the State Investigation Committee will retain early retirement benefits. For all others, retirement will be possible at 55 years old only if a sufficient amount of mandatory pension contributions have been accumulated.

Problems Leading to Pension Reform

At independence, Kazakhstan inherited a pension system that was part of a larger system of benefits and entitlements. Eligibility was universal. The old pension system was funded through mandatory employer contributions of 25.5 percent of payroll, with employees making no contributions. By 1996, the pension system was no longer sustainable and the government was finding it increasingly more difficult to meet the pension obligations. The system was expensive and poorly managed, resulting in insufficient collection of contributions and often causing pensioners to wait for extended periods of time to receive benefits.

Some of the challenges facing the old pension system included: low compliance levels; a significant number of “privileged pensions”, or special benefits, resulting in excessive costs; lower than expected benefit levels, resulting in reduced incentive to contribute; contributions collected were generally less than 50 percent of the expected level reflecting economic problems; an increase of informal sector workers resulting from the shift from large state-owned companies to small privatized companies; and, an increase in the dependency ratio reflecting higher levels of unemployment as well as an increase in the number of pensioners.

Challenges Facing Reformed System

It is anticipated that many of the companies will continue to under-declare or not pay social security contributions. A majority of individuals still do not pay income tax and will be wary of having to contribute to a pension fund. Because the financial sector of Kazakhstan is still undeveloped, there is a lack of public confidence in the private institutions. Early in the stages of pension reform implementation, there will be a limited number of private pension funds operating. The government, therefore, has decided to create a State-controlled fund to operate alongside the private funds. Currently, there is no developed insurance market in the country. The general public does not currently possess the financial expertise and knowledge for making informed decisions about savings or pension fund investments. Finally, there is a lack of available and appropriate assets in which pension funds can invest.

Ultimately, the pension reform effort in Kazakhstan will depend on the development of institutions and legal safeguards, an expansion of the financial sector, a well-run capital market, the development of the insurance market to provide annuities, improving tax collections, the reduction of bureaucracy and malpractice, and the performance of investment returns in financial markets.

Pension Reform Efforts by Pillar

	Pillar 1	Pillar 2	Pillar 3
Papers issued on state of pension systems	✓	✓	✓
Formulation of proposals	✓	✓	✓
Development of draft legislation	✓	✓	✓
Introduction of legislation by parliament	✓	✓	✓
Review of legislation by parliament	✓	✓	✓
Passage of legislation by parliament	✓	✓	✓
Implementation of legislation	✓	✓	✓